Core Question 2: Is the organization in sound fiscal health?

The Financial Performance Framework, outlined in Core Question 2, gauges both near term financial health and longer term financial sustainability while accounting for key financial reporting requirements.

2.1. Short-term Health: Does the school demonstrate the ability to pay its obligations in the next 12 months?

Indicator Targets	Does not meet standard	The school does not meet standard on 2 or more of the five sub-indicators shown below.
	Approaching standard	The school approaches standard for all 5 sub-indicators shown below, OR meet standard on 3 sub-indicators, while approaching on the remaining 2 OR meets standard on 4 sub-indicators, while not meeting standard for the final sub-indicator.
	Meets standard	The school meets standard for 4 sub-indicators shown below, while approaching standard on the final sub-indicator.
	Exceeds standard	The school meets standard for all 5 sub-indicators.

School Rating	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
	2009-10	2010-11	2011-12	2012-13	2013-14	**2014-15**	2015-16
	Not available		AS	DNMS	DNMS	**DNMS**	

Sub-indicator Ratings	Sub-		Sub-indicator targets	Result	Rating
	Enrollment Ratio	DNMS	Enrollment ratio is less than or equal to 89%	98%	AS
		AS	Enrollment ratio is between 90 – 98%		
		MS	Enrollment ratio equals or exceeds 99%		
	February Enrollment Variance	DNMS	Enrollment ratio is less than or equal to 89%	98%	MS
		AS	Enrollment ratio is between 90 – 95%		
		MS	Enrollment ratio equals or exceeds 95%		
	Current Ratio	DNMS	Current ratio is less than or equal to 1.0	0.32	DNMS
		AS	Current ratio is between 1.0 – 1.1		
		MS	Current ratio equals or exceeds 1.1		
	Days Cash on Hand	DNMS	Days cash on hand is less than or equal to 30	2	DNMS
		AS	Days cash on hand is between 30-45		
		MS	Days cash on hand equals or exceeds 45		
	Debt Default	DNMS	Default or delinquent payments identified	DNMS	DNMS
		MS	Not in default or delinquent		

Irvington Community School received a rating of **Does Not Meet Standard** for Core Question 2.1 because it did not meet standard for three sub-indicators, met standard for one sub-indicator, and approached standard for the remaining sub-indicator. At the September 2014 Count Day, the Indiana Department of Education (IDOE) indicated that school had 1025 students enrolled. This is 98% of the 1045 students that the school promised the community it would serve in its charter contract and thus is **approaching standard** for the enrollment ratio sub-indicator.

The school **met standard** for its Feburary Enrollment Variance. This sub-indicator is calculated by dividing the number of students enrolled in the school on the February 2015 Count Day (conducted by the Indiana Department of Education) by the number of students enrolled at the time of the September 2014 Count Day. IDOE indicated that the school had 1004 students enrolled at the February Count Day. This represents 98% of the number of students enrolled at the time of the September Count Day.

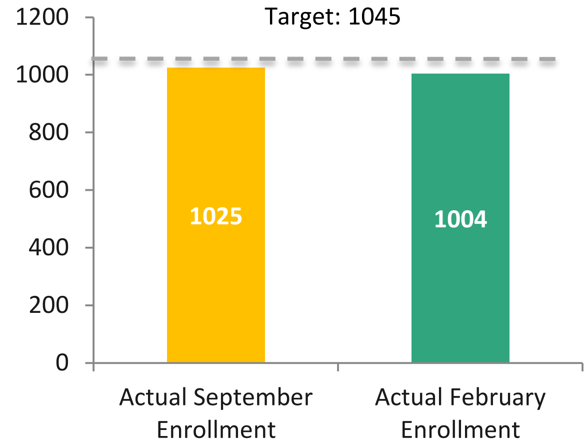
With regard to its current ratio, the school **did not meet standard**, meaning that it did not have current assets (cash or other assets that can be accessed in the next 12 months) that exceeded its current liabilities (debt obligations due in the next 12 months) by 10% or more.

Additionally, the school ended the year with 2 days cash on hand and **did not meet standard** for this ratio. Days cash on hand is an important measure of a charter school's fiscal health because it indicates how many more days after June 30, 2015 that the school would have been able to operate at its current spending levels without receiving a tuition support payment from IDOE.

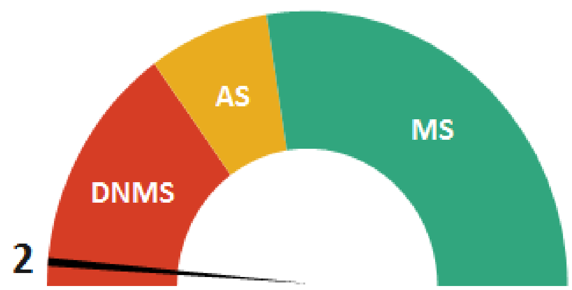
Lastly, the school **did not meet standard** for debt default. This metric is determined by both the auditors' comments in the audited financial statements or contact with the school's creditors. In 2014, Irvington Community Schools defaulted on a line of credit, but entered into a forebearance agreement with the bank through October 31. 2016. By June 30, 2015, the school was in compliance with the terms of the agreement and had a balance of $172,073 remaining on the line of credit.

Additionally, for the year ending on June 30, 2015, the school was not in compliance with all financial covenants outlined in the bond agreement for two Educational Faciliites Revenue Bonds. Per the bond indenture agreement, failure to observe a covenant does not result in an Event of Default. Rather, the school has a period of time ranging from 12-24 months after initial non-compliance to comply with the covenants. No Event of Default will occur so long as the trustee deems the actions taken by the school within the 12-24 month time period as adequate for moving the school towards a state of compliance with all covenants. After this time period, the trustee has the right to require the school to engage with a management consultant.

Enrollment Variance Ratio



Days Cash on Hand



2.2. Long-term Health: Does the organization demonstrate long-term financial health?							
Indicator Targets	Does not meet standard	The school does not meet standard on any of the 3 sub-indicators **OR** meets standard on 1 sub-indicator but does not meet standard on the remaining 2.					
	Approaching standard	The school meets standard on 2 of the sub-indicators while not meeting on the third, **OR** approaches standard on all 3 sub-indicators.					
	Meets standard	The school meets standard on 2 of the sub-indicators and approaches standard on the third.					
	Exceeds standard	The school meets standard for all 3 sub-indicators.					
School Rating	**Year 8**	**Year 9**	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Year 14**
	2009-10	2010-11	2011-12	2012-13	2013-14	**2014-15**	2015-16
	Not available			DNMS	DNMS	**DNMS**	
Sub-indicator Ratings	Sub-	Sub-indicator targets				Result	Rating
	Aggregate Three-Year Net Income	DNMS	Aggregate 3-year net income is negative.			-$841,363 (aggregate) -$156,486 (current)	DNMS
		AS	Aggregate 3-year net income is positive, but most recent year is negative.				
		MS	Aggregate three year net income is positive, and most recent year is positive.				
	Debt to Asset Ratio	DNMS	Debt to Asset ratio equals or exceeds .95			1.23	DNMS
		AS	Debt to Asset ratio is between .9 - .95				
		MS	Debt to Asset ratio is less than or equal to .9				
	Debt Service Coverage (DSC) Ratio	DNMS	DSC ratio is less than or equal to 1.05			1.06	AS
		AS	DSC ratio is between 1.05-1.2				
		MS	DSC ratio equals or exceeds 1.2				

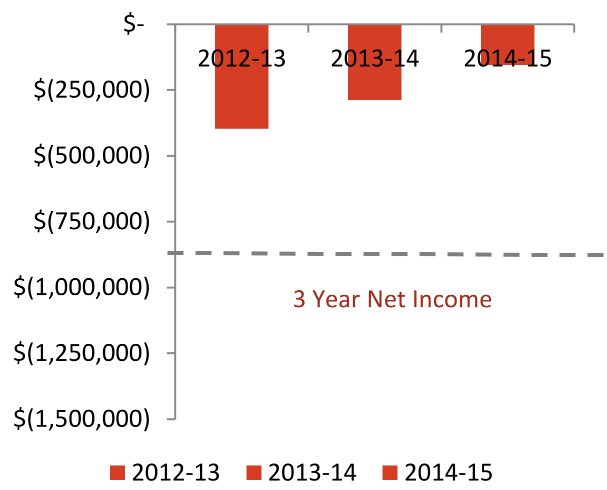
The school received a rating of **Does Not Meet Standard** for Core Question 2.2 because it did not meet standard for two the sub-indicators for this core question. The school **did not meet standard** for the net income sub-indicator and had a current year net income of **-$156,486,** with an aggregate three year net income of **-$841,363**. This sub-indicator is important because public charter schools, like most non-profits, cannot run at a deficit for an extended period of time and continue to provide services to the community.

Irvington Community Schools **did not meet standard** for the debt to asset ratio sub-indicator. The school had a debt to asset ratio of 1.23, meaning that its total liabilities equated to 123% of its assets.

Lastly, the school **approached standard** for debt service coverage (DSC), as it had a debt service coverage ratio of 1.06. This shows that the school has enough operating income to service its debt revolver, but falls short of the industry standard of 1.2. The school has several bonds with varying interest rates and maturity dates. Additionally, the school has capital leases which will expire by 2018.

Given that Irvington Community Schools received a rating of **does not meet standard** for two sub-indicators, it received a rating of **Does Not Meet Standard** for Core Question 2.2.

Three-Year Net Income



<table>
<tr><th colspan="8">2.3. Does the organization demonstrate it has adequate financial management and systems?</th></tr>
<tr><td rowspan="3">Indicator Targets</td><td colspan="2">Does not meet standard</td><td colspan="5">The school does not meet standard on 1 of the sub-indicators.</td></tr>
<tr><td colspan="2">Approaching standard</td><td colspan="5">The school meets standards on 1 sub-indicator, but approaches standard for the remaining sub-indicator.</td></tr>
<tr><td colspan="2">Meets standard</td><td colspan="5">The school meets standard on both sub-indicators.</td></tr>
<tr><td rowspan="3">School Rating</td><td>Year 8</td><td>Year 9</td><td>Year 10</td><td>Year 11</td><td>Year 12</td><td>Year 13</td><td>Year 14</td></tr>
<tr><td>2009-10</td><td>2010-11</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td colspan="3">Not available</td><td>DNMS</td><td>DNMS</td><td>DNMS</td><td></td></tr>
<tr><td rowspan="6">Sub-indicator Ratings</td><td>Sub-indicator</td><td colspan="5">Sub-indicator targets</td><td>Rating</td></tr>
<tr><td rowspan="3">Financial Audit</td><td>DNMS</td><td colspan="4">The school receives an audit with multiple significant deficiencies, materials weakness, or has an ongoing concern.</td><td rowspan="3">DNMS</td></tr>
<tr><td>AS</td><td colspan="4">The school receives a clean audit opinion with few significant deficiencies noted, but no material weaknesses.</td></tr>
<tr><td>MS</td><td colspan="4">The school receives a clean audit opinion.</td></tr>
<tr><td rowspan="2">Financial Reporting Requiremen ts</td><td>DNMS</td><td colspan="4">The school fails to satisfy financial reporting requirements.</td><td rowspan="2">DNMS</td></tr>
<tr><td>MS</td><td colspan="4">The school satisfies all financial reporting requirements.</td></tr>
</table>

Irvington Community Schools received a rating of **Does Not Meet Standard** for Core Question 2.3 for the 2014-15 school year. The school received a **does not meet standard** for the financial audit sub-indicator because the audit, completed by Sikich, identified a material weakness within the school's financial statements. The school's OMB A-133 audit of federal funds also identified several significant deficiencies. The findings can be summarized below and appear on pages 27-33 of the audit.

Financial Statement Findings:

1) Material Adjusting Entries

The audit stated that the auditors "had to record adjustments for accounts receivable, accounts payable, 403b accrual balances, contributed rent receivable and bond premiums ". The auditors consider these changes "a material weakness in internal control over financial reporting".

In response to this material weakness, the school maintained that they would improve their accounting procedures to ensure that such adjustments will not occur again. Additionally, the school made staffing changes in the positions primarily responsible for the initial lack of oversight. Newly hired staff will implement new policies and proecdures in accordance with industry best practices.

Federal Award Findings:

The school failed to complete its audit in compliance with the deadline for the OMB Circular A-133 audit within 9 months of the fiscal year ending June 30, 2015. The school ultimately completed the audit process in October of 2016.

The audit outlined the following three significant deficiencies related to federal awards management:

- Lack of documentation supporting expenditures charged to federal programs
- Lack of timely submission of certain federal award expenditure reports
- Title I reimbursement requests that exceeded actual costs incurred for the year ended June 30, 2015

The school communicated to the auditor that they will take steps to remedy these deficiencies. Per the audit, ICS "plans to modify its processes and implemented procedures both internally and with external accountants in order to provide evidence of all expenditures and assure all submissions are accurate, timely and within approved annual budget limits". As stated in the response to the material weakness, a newly hired CFO will play a critical role in implementing these changes and modifications.

The initial draft of the school's audit was not received until October of 2016, well after the November 30th, 2015 deadline. Additionally, the school reported only 62% of its financial documents to the Office of Education Innovation in a timely manner during school year 2014-15. As such, the school **does not meet standard** for the financial reporting requirements sub-indicator.

For these reasons, the school received a rating of **Does Not Meet Standard** for Core Question 2.3 for the 2014-2015 school year.